



POLICY BRIEF



THE INEQUITY OF STUDENT LOAN FORGIVENESS

Student loan forgiveness is regressive, inequitable, and it will not stimulate the economy. Instead, it will create an incentive for students to accumulate more debt and award as much as \$192 billion to the top 20 percent of income earners.¹ Forgiveness is fundamentally unfair because it will ultimately be paid by taxpayers—many who have faithfully paid off their student loans, worked hard to pay for college, or chose not to go to college at all.

In August 2022, President Biden signed an executive order that gives a one-time debt cancellation for federal student loans and amends the student loan repayment program. The order would cancel up to \$20,000 of student loans held by Pell Grant recipients and up to \$10,000 held by non-Pell Grant recipients.² However, numerous lawsuits emerged challenging the legality of the forgiveness program, and as multiple federal courts ruled against it, the debt cancellation has not been implemented. The Supreme Court plans to hear two cases challenging the order in February 2023.³ The Biden administration continues to demonstrate their commitment to unfair student loan practices.

- **Outstanding federal student loan debt currently totals \$1.7 trillion and is disproportionately held by the wealthy.⁴**
 - Of 255 million adult Americans, 45 million have student loan debt. Those in the top fifth of household income hold \$3 in student loans for every \$1 held by the bottom fifth of household incomes.⁵
 - Graduate students hold 40 percent of student loan debt, and the fields of study with the largest student loans include high income dentistry, medicine, and law.⁶
- **Though Democrats claim student loan debt cancellation will aid the COVID-19 pandemic recovery, cancellation does nothing to help the 210 million Americans without student debt who are also suffering.**
 - In fact, those without college degrees faced unemployment rates 1.75-2 times higher than those with college degrees during the COVID-19 pandemic.⁷ Student loan debt cancellation would require these hard-working Americans who have been hurt worst by the pandemic to pay for the debt of those who are still employed or able to find jobs.
 - Furthermore, students already have loan-payments and interest accrual suspended until 60 days after litigation regarding loan forgiveness is resolved or 60 days after June 30, 2023.⁸ That is to say, the argument for canceling loan payments which are already temporarily canceled to aid in the pandemic recovery is meaningless.
- **Programs already exist to aid students in re-paying their loans through income-driven repayment (IDR) plans. As of 2019, 40 percent of borrowers are enrolled in an IDR plan.⁹**
 - These plans allow students to repay their loan at a speed that works for their income level, and these plans offer full forgiveness after 20 or 25 years.¹⁰ Those who continue to promote student loan forgiveness need to answer why forgiveness is a better alternative to the existing generous repayment plans.

- Additionally, for borrowers already enrolled in income-driven repayment plans, their monthly payment would be unaffected by forgiveness. Their payments are already set at the rate of their income, not the amount left to be paid.
- **An underlying reason for excessive student loan debt is increasing higher education costs.**
 - From 1980 to 2016, average yearly tuition has increased a whopping 238 percent, an increase greater than the rate of healthcare prices. When the government subsidizes tuition cost through loans and grants, it “creates artificially high demand for colleges degrees, driving tuition prices higher and increasing the overall cost for students and taxpayers.”¹¹
 - The Federal Reserve Bank of New York found that for every additional dollar of subsidized federal student loan, tuition increases 60 cents.¹²
 - Thus, cancelling student loans will only serve to exacerbate the problem of higher education costs, which is one of the driving factors of student loan debt.

Congress should resist calls for loan forgiveness and instead focus on market driven solutions that bring down the cost of higher education, including reducing the government’s role in the student loan market.¹³ Congress should encourage colleges and universities to recruit students to study subjects that will lead to quality jobs. Moreover, Congress should focus on re-starting student loan payments as the economy has reopened, improving income-based repayment plans, and ending any loan forgiveness. By doing this, Congress can strengthen the value of higher education for this generation and those to come.

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¹ Polumbo, Brad. “Top 20% Gets 6x More Benefits from Student Debt Cancellation than Bottom 20%, New Study.” *Foundation for Economic Education*. December 1, 2020. <https://fee.org/articles/top-20-gets-6x-more-benefits-from-student-debt-cancellation-than-bottom-20-new-study-finds/>

² Fact Sheet: President Biden Announces Student Loan Relief for Borrowers Who Need It Most. White House. August 24, 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/>

³ Rubin, Gabriel. “Millions of Student Loan Holders Face Debt Forgiveness uncertainty in 2023.” *Wall Street Journal*. December 26, 2022. <https://www.wsj.com/articles/millions-of-student-loan-holders-face-debt-forgiveness-uncertainty-in-2023-11671998025>

⁴ “Consumer Credit Outstanding (Levels)” https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html

⁵ Cooper, Preston. “The Case Against Student Loan Forgiveness.” *Forbes*. November 17, 2020. <https://www.forbes.com/sites/prestoncooper2/2020/11/17/the-case-against-student-loan-forgiveness/?sh=e427487464c6>

⁶ Burke, Lindsey M. Ph.D. “Canceling Student Loan Debt Isn’t Smart or Fair Response to COVID-19.” *The Heritage Foundation*. March 23, 2020. <https://www.heritage.org/education/commentary/canceling-student-loan-debt-isnt-smart-or-fair-response-covid-19> and Lindsay, Thomas K., Ph.D., Gillen, Andrew, Ph.D., Vedder, Richard, Ph.D. “Student loan forgiveness would be windfall for dentists, doctors and lawyers.” *Texas Public Policy Foundation*. January 25, 2021. <https://www.texaspolicy.com/student-loan-forgiveness-would-be-windfall-for-dentists-doctors-and-lawyers/>

⁷ Nietzel, Michael T. “Unemployment Rates During the Pandemic are Much Lower for Adults with a College Degree.” *Forbes*. September 8, 2020. <https://www.forbes.com/sites/michaelnietzel/2020/09/08/unemployment-rates-during-the-pandemic-are-much-lower-for-those-with-a-college-degree/?sh=7357f5b6e29c>

⁸ COVID-19 Emergency Relief and Federal Student Aid, U.S. Department of Education. <https://studentaid.gov/announcements-events/covid-19>

⁹ Catherine, Sylvain and Yannelis, Constantine. “The Distributional Effects of Student Loan Forgiveness.” Becker Friedman Institute, University of Chicago. December 2020. https://bfi.uchicago.edu/wp-content/uploads/2020/11/BFI_WP_2020169.pdf

¹⁰ “If your federal student loan payments are high compared to your income, you may want to repay your loans under an income-driven repayment plan.” Federal Student Aid, Department of Education. <https://studentaid.gov/manage-loans/repayment/plans/income-driven>

¹¹ De Rugy, Veronique and Salmon, Jack. “Reevaluating the Effects of Federal Financing in Higher Education.” Mercatus Center, George Mason University. August 13, 2019. <https://www.mercatus.org/publications/education-policy/reevaluating-effects-federal-financing-higher-education>

¹² Lucca, David, Nadauld, Taylor, Shen, Karen. “Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs.” Federal Reserve Bank of New York. February 2017.

https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.pdf?la=en

¹³ Gillen, Andrew, Ph.D. “Unleashing Market-Based Student Lending.” *Texas Public Policy Foundation*. May 2020.

<https://files.texaspolicy.com/uploads/2020/05/01102229/A.Gillen-Market-based-Student-Lending.pdf>